

VZCZCXRO9082
RR RUEHBC RUEHDE RUEHDH RUEHIHL RUEHKUK
DE RUEHGB #2389/01 2471602
ZNY CCCCC ZZH
R 041602Z SEP 09
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 4594
INFO RUCNRAQ/IRAQ COLLECTIVE
RUEHC/OPEC COLLECTIVE
RHEBAAA/USDOE WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002389

SIPDIS

E.O. 12958: DECL: 09/04/2019

TAGS: [EPET](#) [ENRG](#) [ECON](#) [EINV](#) [EAID](#) [PREL](#) [IZ](#)

SUBJECT: OIL MINISTER FLEXIBLE WITH IOC IN PRIVATE ... BUT
IN PUBLIC?

REF: BAGHDAD 02299

Classified By: EMIN John Desrocher for reasons 1.4 (b) & (d)

¶1. (C) Summary: British Petroleum Iraq (BP) said Oil Minister Shahrستاني is under intense pressure to get the GOI's contract with British Petroleum/China National Petroleum Corporation (BP/CNPC) signed. According to BP, Shahrستاني has been personally engaged and responsive to BP's concerns, and the Oil Ministry's Petroleum Contracts and Licensing Directorate (PCLD) and its South Oil Company (SOC), the stipulated joint-venture partner in the BP/CNPC contract, have had minimal involvement in the ongoing negotiations. In preparing for business in Iraq, BP said it is much more concerned about security risks than legal risks, and more concerned about criminal security (e.g., theft and smuggling of oil production) than physical security. End Summary.

Oil Minister May Be under Pressure to Close BP/CNPC Contract

¶2. (C) In a September 1 meeting, the president and the vice-president of BP-Iraq said they had spent five to six full days during three rounds of negotiations with Oil Minister Shahrستاني on the BP/CNPC contract for Rumaila oil field, the only field awarded during Iraq's first oil and gas bid round on June 30. The BP representatives expected two more rounds of negotiations. They said Shahrستاني has been personally engaged and responsive to their concerns, because he is under intense pressure to get the BP/CNPC contract signed. BP indicated that during private sessions without his staff, Shahrستاني was unexpectedly receptive to contract changes. BP claimed this receptiveness led to a change in terms for the upcoming (second) oil and gas bid round. This change in terms gives companies more operational control in developing awarded fields. (Comment: Shahrستاني's alleged behavior during private meetings suggests he is being forced by events to be more reasonable and flexible. However, in public or with his staff, he reportedly continues to demonstrate the opposite behavior. We hope these glimmers of change presage some conciliatory behavior by Shahrستاني during the upcoming second bid round. End Comment) BP said Shahrستاني had originally expected to have a signed BP/CNPC contract before the Istanbul "road show" on August 25. BP expects the contract to be signed "in the fall."

Oil Ministry Contract-Negotiation Capacity Woefully Limited

¶3. (C) Without Shahrستاني's direct involvement, BP said, there would be no progress in the BP/CNPC contract negotiations. Both SOC, the stipulated joint-venture partner in the contract, and PCLD have had minimal involvement in the negotiations. (Comment: This claim and Shahrستاني's

orchestration of the first bid round continue to indicate his tight control over all decisions. End Comment) BP also observed that the contract negotiations have absorbed all available Ministry of Oil (MOO) resources and that MOO would have been unable to negotiate a second oil field contract concurrently, had another one been awarded during the first bid round. (Comment: Given PCLD's reported insufficient staffing and technical capacity to negotiate multiple complex contracts at once with international oil companies (IOCs), we question whether PCLD can successfully negotiate multiple contracts if more than one field is awarded in the second bid round in late November. Significant delays in negotiating contracts for awarded fields could exacerbate the oil sector's negative perceptions of MOO's competence and further undermine confidence in MOO and the GOI. End Comment)

BP's Most Worrisome Business Risk in Iraq

14. (C) BP said it is much more concerned with the security risk than any political or legal risk in Iraq, and more concerned about criminal security risk (e.g., theft and smuggling of oil production) than physical security. (Comment: Rumaila oil field, the field for which the BP/CNPC contract is being negotiated, has limited metering to track production, which allows theft and smuggling to go unnoticed. BP expects that the rigorous metering that would accompany their development of Rumaila field will surprise MOO and could provoke anyone benefiting from the currently poor record keeping at Rumaila. End Comment) While disappointed that no hydrocarbons legislation has been passed, BP

BAGHDAD 00002389 002 OF 002

expressed little concern and gave no indication that this lack of legislation would prevent it from pursuing business in Iraq. In BP's view, the fact that 32 IOCs paid to participate in the first bid round demonstrates the industry's tolerance for doing business in Iraq's poorly defined legal and political environments.

BP's Thoughts on the Upcoming Second Oil and Gas Bid Round

15. (C) BP asserted that the second bid round is occurring too soon after the first bid round, because MOO has not yet had time to fully assimilate lessons learned from the first bid round. The oil fields in the upcoming second bid round are either underdeveloped or undeveloped (so called "green fields"), so BP assumes that MOO will have some leeway to allow a higher maximum remuneration fee for bidders. Nevertheless, BP expects MOO will make very few changes in terms from the first bid round to the second bid round, because it is concerned about the resulting public perceptions.

HILL